



Washington State Auditor's Office

Report to the Legislature Audits of State Agency Local Funds 2007-2009 Biennium

Introduction

The State Auditor's Office audits the financial activity and record-keeping practices of local funds as part of its audits of state agencies. This report contains the results of the audits for the 2007-2009 biennium.

Local funds are state funds not in the care and custody of the Office of the State Treasurer. The Legislature established some of the funds; the rest are authorized under state law (RCW 43.88.105), which allows the Office of Financial Management to establish local funds outside the State Treasury when agencies present compelling reasons to do so.

2007-2009 Local Funds Information

During the 2007-2009 biennium, 19 state agencies had money in 58 local funds. These 19 agencies include five universities and 22 community and technical colleges. (For reporting purposes, the state combines the community colleges and technical colleges into one state agency). As of June 30, 2009, 58 local funds reported \$7.9 billion in cash and investments. Those funds reported \$9.6 billion as of June 30, 2008.

Table 1 shows the cash and investments in local accounts by fund type. [Attachment A](#) has detailed information about all 58 local funds and the agencies that use the funds.

Table 1 – Local Funds by Fund Type

Fund Type	2009	2008
Special Revenue Funds	\$ 1,310,804,362	\$ 1,458,524,631
Capital Projects Funds	23,202,660	42,226,025
Debt Service Funds	8,445,305	8,297,600
Permanent Funds	1,843,192,459	2,795,095,882
Enterprise Funds	4,153,803,231	4,799,720,359
Internal Service Funds	13,395,050	10,701,585
Private Purpose Trust Funds	52,746	53,784
Cash Held for Others	580,038,465	481,019,120
Total Local Funds	\$ 7,932,934,278	\$ 9,595,638,986

Each state agency, including the colleges and universities, is responsible for accounting procedures and internal controls over the local fund(s) it uses.

The risk of misuse or misappropriation of funds increases when cash receipting and disbursing operations are decentralized. The risk of noncompliance with state laws and regulations also increases. During the biennium, we reported seven local fund fraud findings totaling \$53,467 in known losses:

- Four occurred at one university.
- Two occurred at community colleges.
- One occurred at a technical college,.

All of the frauds occurred at decentralized locations.

Colleges and universities spend most of their money through various local funds. Table 2 shows the revenue and expenditures in local funds for the 2007-2009 biennium.

Table 2 – Revenue and Expenditures

Fund Type	Revenue		Expenditures	
	2009	2008	2009	2008
Special Revenue Local Funds	\$3,636,829,351	\$3,416,626,221	\$3,540,713,071	\$3,328,423,528
Capital Projects Local Funds	85,153,030	68,020,207	99,664,455	78,299,512
Debt Service Local Funds	147,705	613,759	0	0
Permanent Local Funds	(540,840,375)	56,290,878	159,868	406,859
Enterprise Local Funds	3,548,547,318	3,190,283,296	4,074,385,440	2,661,330,656
Internal Service Local Funds	254,278,725	292,203,402	257,647,215	296,214,099
Private Purpose Local Funds			1,496	422
Total Local Funds Revenues and Expenditures	\$6,984,115,754	\$7,024,037,763	\$7,972,571,545	\$6,364,675,076

Local Funds Descriptions

Eight types of local funds, including revolving funds, are used for a variety of purposes. All fund types except agency funds have revenue and expenditures.

- **Special Revenue Funds:** These 21 funds are used to collect and spend money earmarked for specific purposes. Approximately 87 percent of the \$3.1 billion in revenue for this fund type was used in community and technical colleges; 36 percent came from federal sources.
- **Capital Projects Funds:** The Higher Education Non-Proprietary Facilities Account represents 100 percent of the 2009 revenues.
- **Debt Service Funds:** The Ecology Building Debt Service Fund represents 100 percent of the 2009 revenue.
- **Permanent Funds:** Three endowment funds are used by colleges and universities. Only the interest earned on the invested bequests can be spent from these funds. The negative revenues in 2009 are the results of investment losses due to the downturn of the economy. The Higher Ed-Endowment Local Account represents negative revenue of \$540 million. The University of Washington represents 99.9 percent of the negative revenue.
- **Enterprise Funds:** These 19 funds are used to provide goods and services to the public and to recover expenditures through user charges. They include fees collected from parking operations, bookstores, food service and housing at state colleges and universities. Other examples include institutional stores used by several state agencies: the University of Washington's hospital operations account, the state Unemployment Compensation account and the State Lottery Account. About 40 percent of the \$3.5 billion revenue in 2009 represent the college and university activities described above. Another 33 percent are related to the state's Unemployment Compensation Account.
- **Internal Service Trust Funds:** These seven funds contain money paid by one agency to another for goods and services and operate as revolving funds. Colleges and universities use most of the \$254 million in various funds to operate stores, data processing, printing, facilities and motor pools.
- **Private Purpose Trust Funds:** The Veterans Memorial Account represents 100 percent of the assets held in trust by the state for the money that benefits or belongs to others.

- **Agency Funds:** These are assets held by the state acting as an agent for other governments or individuals. These assets do not belong to the state. Agency funds report assets and liabilities but neither receives revenue from the state nor makes expenditures. Examples of agency funds are the Washington Higher Education Account and the Institutional Residents' Deposit Account.

General Audit Procedures

In general, we cycle audits of local funds by agency and by fund, based on where we perceive the highest degree of risk or error, misuse, abuse or misappropriation. We do not audit all funds at every agency every year. Our goal is to include every fund at least once in a three-year period.

We report the results of our reviews to those we audit and recommend improvements as needed. In areas in which significant improvements are needed, we present our recommendation as findings in a published report. Less serious conditions are communicated to agency management and recommend that the conditions will be improved before our next audit.

Local Funds Audit Procedures During the 2007-2009 Biennium

We performed audit procedures at 41 state agencies, community colleges, and/or colleges and universities. We issued eight findings related to local funds for three state agencies, one university and four community colleges, in addition to the seven fraud findings mentioned above.

Recommendations

Other than recommendations made in the abovementioned findings, we have no other recommendations to offer the Legislature concerning local funds.